



Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

Citadel Premium Income Fund

Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

Citadel S-1 Income Trust Fund

Citadel S-1 Income Trust Fund

Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1") is a closed-end investment trust which became listed on the Toronto Stock Exchange on October 6, 2000. The Fund has a termination date of December 31, 2010 or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

During 2006, Citadel S-1 paid total cash distributions of \$1.598 per unit based on monthly distributions of \$0.104 per unit plus a special cash distribution of \$0.35 per unit to unitholders of record on December 31, 2006. In 2005, total distributions paid were \$1.248 per unit based on monthly distributions of \$0.104 per unit. On November 15, 2005, the Fund completed a unit split on a 2 for 1 basis, and as a result all per unit information has been restated to reflect the unit split.

INVESTMENT HIGHLIGHTS:

	2006	2005	2004
Net Asset Value per Unit ⁽¹⁾	\$ 14.94	\$ 16.98	\$ 16.26
Market Price per Unit ⁽¹⁾	\$ 13.10	\$ 15.88	\$ 16.89
Trading Premium (Discount)	(12.3%)	(6.5%)	3.9%
Cash Distributions per Unit	\$ 1.598	\$ 1.248	\$ 1.648
Trailing Yield ⁽²⁾	12.2%	7.9%	9.8%
Market Capitalization (\$ millions)	\$ 53.1	\$ 66.7	\$ 72.3

⁽¹⁾ Net asset value and market price per unit are based on year end values.

⁽²⁾ Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

Management Report of Fund Performance

(March 20, 2007)

This annual report for the years ended December 31, 2006 and 2005 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Citadel S-1's investment objectives are to provide its unitholders with a high level of monthly distributions while maintaining an SR-1 stability rating and to maximize the net asset value of the Fund over its life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of Canadian income funds, Canadian and U.S. high yielding investment grade debt and income yielding equity securities.

RISK

There are a number of risks associated with an investment in Citadel S-1. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

On October 31, 2006 the Federal Minister of Finance (the "Finance Minister") announced a proposal (the "Trust Taxation Plan") to apply a tax at the trust/partnership level on distributions of certain income from publicly traded mutual fund trusts and partnerships at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders. The Finance Minister said existing trusts and partnerships would have a four-year transition period and generally would not be subject to the new rules until 2011. Until such rules are released in legislative form and passed into law it is uncertain what the impact of such rules will be to Canadian income funds (including publicly traded partnerships) and their investors. However, assuming the Trust Taxation Plan is ultimately enacted in the form proposed, those Canadian income fund issuers in which the Trust invests (other than real estate investment trusts that meet prescribed conditions under the new rules) will be subject to the Trust Taxation Plan commencing in 2011 and the implementation of such proposal would be expected to result in adverse tax consequences to such Canadian income funds and to adversely impact cash distributions from such Canadian income funds to the Trust. Based on the composition of the Trust's Portfolio, it is not expected that the Trust itself would be considered a "specified investment flow-through" under the Trust Taxation Plan, and therefore it is expected that the Trust itself will continue not to be directly liable for any material amount of income tax.

RESULTS OF OPERATIONS

Citadel S-1's net assets declined from \$71.3 million at December 31, 2005 to \$60.5 million at December 31, 2006, due primarily to portfolio devaluations created by the Government's Trust Taxation Plan. On a per unit basis, the Fund's net asset value also decreased to \$14.94 per unit at December 31, 2006 from \$16.98 per unit at the end of 2005. On November 15, 2005, the Fund completed a unit split on a 2 for 1 basis and as a result all per unit information has been restated to reflect the unit split.

The Fund's market price closed at \$13.10 per unit on December 31, 2006, down from \$15.88 per unit at the end of 2005 as its net asset value declined. Citadel S-1's unit price decline plus monthly cash distributions produced a negative 8.1% total return for 2006, while the Fund generated a negative 2.0% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index produced a negative return of 2.8% over the same period.

Total revenue for the year ended 2006 was \$5.7 million, consistent with revenue generated in 2005. Administrative and investment manager fees, payable in trust units of the Fund, totaled \$0.94 million in 2006 compared to \$0.96 million in 2005. Total general and administration costs, including other expenses, were \$0.24 million compared to \$0.28 million in 2005. Net investment income and net investment income per unit were \$4.5 million or \$1.09 per unit compared to \$4.5 million or \$1.05 per unit in 2005.

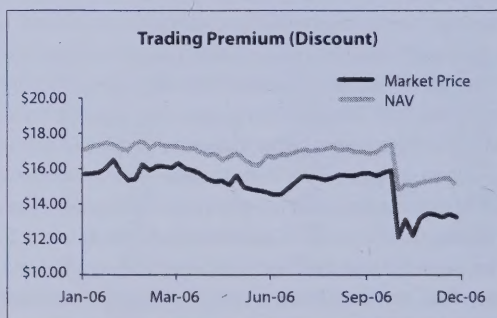
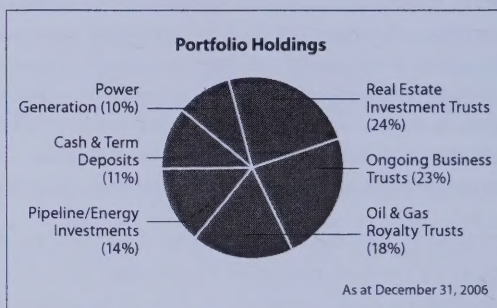
The Fund took profits on a number of investments during 2006 which resulted in realized gains of \$2.0 million compared to \$2.5 million in 2005. However these realized gains were more than offset by unrealized losses on the Fund's portfolio of \$8.5 million (2005 – unrealized gains of \$1.3 million). As a result, the Fund's total results of operations declined from \$8.3 million or \$1.94 per unit in 2005 to a loss of \$2.0 million or \$0.49 per unit in 2006.

During 2006, Citadel S-1 paid monthly distributions of \$0.104 per unit plus a special cash distribution to unitholders of record on December 31, 2006 of \$0.35 per unit for a total of \$6.5 million or \$1.598 per unit compared to \$5.3 million or \$1.248 per unit in 2005.

Overall, the Fund reduced its weighting in the oil & gas royalty trusts, pipeline/energy investments and power investments while increasing its weighting in the real estate trusts and cash. The Fund's SR-1 stability rated portfolio, combined with its high cash weighting, provides a conservative, yet opportunistic, position during this period of market volatility.

TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

During 2006, the Fund's market price traded at an average discount to its net asset value per unit of 9.7% compared to an average discount of 5.4% in 2005. With the widening discount, the Fund repurchased 205,300 units at an average cost of \$15.18 per unit under its mandatory repurchase program for 2006 compared to 146,104 units at an average cost of \$15.67 per unit in 2005. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding.



STABILITY RATING

Standard & Poor's provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard & Poor's Stability Ratings characterize the stability of the cash distribution stream of an income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 for the most stable to SR-7 for the least stable. During 2006, the Fund maintained its SR-1 stability rating and expects to maintain the rating for the foreseeable future.

RECENT DEVELOPMENTS

Throughout 2006, the trust sector experienced pronounced periods of volatility and sub-sector performance variance in addition to the valuation destruction created by the Government's Trust Taxation Plan. Despite the current unsettled market conditions, the Fund's investment manager feels all negative news has been priced into the trust sector and as a result is optimistic about the opportunities to generate strong returns for the Fund in 2007. Based upon the Fund's current portfolio and analysts' estimates of distributions, Citadel S-1 expects to maintain its SR-1 stability rating and its monthly distribution rate of \$0.104 per unit for 2007.

Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Under NI 81-107, an Independent Review Committee ("IRC") is required to be established by May 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures are to be adopted no later than November 1, 2007 and investment funds must be in full compliance of NI 81-107 at that time. Citadel S-1 continues to research and develop its IRC and expects to meet each implementation date requirement.

New CICA Financial Instrument Standard

The Canadian Institute of Chartered Accountants has recently issued Section 3855, "Financial Instruments – Recognition and Measurement". Of importance to investment funds are new definitions and requirements for determining the fair value of financial instruments, particularly investments. Since current securities regulations require that investment funds calculate Net Asset Value ("NAV") in accordance with Generally Accepted Accounting Principles ("GAAP"), This new standard impacts the way in which net asset value is determined. For securities quoted on an open market, the new standard requires the use of bid prices for an asset held as opposed to the closing prices currently used. Bid prices are normally less than closing prices which will result in lower net asset values. Currently, transaction costs such as broker fees are added to the cost base of investments purchased and deducted from the proceeds of investments sold. The new standard requires that these costs be expensed. Although this does not affect the overall NAV, it will increase expenses and the management expense ratio. The new standard is effective January 1, 2007 for Citadel S-1. Canadian securities regulators have been granted relief from the requirement to calculate NAV for purposes other than financial statements in accordance with this standard, allowing them and investment fund managers the opportunity to further study the issue. This relief is in effect until the earlier of September 30, 2007 and the date on which legislation with respect to calculating NAV for purposes other than financial statements is changed. Until that time, Citadel S-1 intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

RELATED PARTY TRANSACTIONS

Citadel S1 Management Ltd. is the administrator of Citadel S-1, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.25% of the aggregate average weekly net asset value of the Fund, payable annually in units in advance and subject to annual adjustment. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements for each year in the 5 year period ended December 31, 2006.

Net Asset Value (NAV) per Unit

	2006	2005	2004	2003	2002
NAV, beginning of year	\$ 16.98	\$ 16.26	\$ 15.09	\$ 13.00	\$ 13.14
Increase (decrease) from operations:					
Total revenue	1.38	1.34	1.36	1.32	1.23
Total expenses	(0.29)	(0.29)	(0.26)	(0.24)	(0.24)
Realized gains (losses)	0.47	0.59	0.94	0.64	0.29
Unrealized gains (losses)	(2.05)	0.30	0.77	1.64	(0.20)
Total increase (decrease) from operations	(0.49)	1.94	2.81	3.36	1.08
Distributions:					
From net investment income	1.32	1.25	1.30	1.25	1.17
From capital gains	0.28	–	0.35	–	0.08
Total cash distributions	1.60	1.25	1.65	1.25	1.25
NAV, end of year	\$ 14.94	\$ 16.98	\$ 16.26	\$ 15.09	\$ 13.00

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2006	2005	2004	2003	2002
Net assets (\$ 000's)	\$ 60,535	\$ 71,286	\$ 69,639	\$ 64,873	\$ 55,112
Number of units outstanding	4,050,683	4,197,122	4,283,454	4,298,658	4,240,966
Management expense ratio	1.73%	1.78%	1.69%	1.77%	1.85%
Portfolio turnover ratio	31.07%	23.74%	20.84%	42.58%	20.01%
Trading expense ratio	0.09%	0.10%	0.07%	0.13%	0.04%
Closing market price	\$ 13.10	\$ 15.88	\$ 16.89	\$ 14.25	\$ 14.08

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

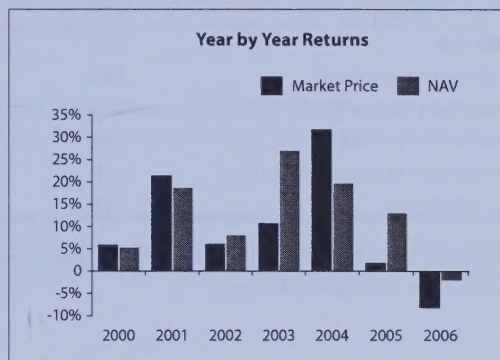
MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.25% of the aggregate average weekly net asset value of the Fund, payable in units annually in advance and subject to annual adjustment. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management provided to the Fund.

PAST PERFORMANCE

Citadel S-1's performance numbers represent the annual compound total returns over the period from inception in October 2000 to December 31, 2006 (except for returns of less than one year which are compound total returns). Total returns are based upon both the Fund's change in market price and net asset value plus the reinvestment of all distributions in additional units of the Fund.

Returns do not take into account sales, redemptions or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.



ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Citadel S-1 based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index for the periods indicated to December 31, 2006.

	1 Year	3 Year	5 Year	Since inception
Citadel S-1 (market price)	(8.12%)	7.20%	7.65%	10.43%
Citadel S-1 (net asset value)	(2.00%)	9.87%	12.70%	14.02%
S&P/TSX Capped Income Trust Index	(2.85%)	17.30%	20.33%	21.04%

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2006

Net Assets: \$60,535,354

Portfolio by Sector	% of Net Assets
Real Estate Investment Trusts	24.0%
Ongoing Business Trusts	23.2%
Oil & Gas Royalty Trusts	17.9%
Pipeline / Energy Investments	14.5%
Power Generation Investments	10.3%
Cash and Term Deposits	11.1%
Liabilities, net of other assets	(1.0%)
Total Net Assets	100.0%

TOP 25 HOLDINGS (as a % of net assets)

Northland Power Income Fund	5.5%	CML Healthcare Income Fund	2.5%
Dundee Reit	5.3%	Algonquin Power Income Fund	2.5%
Inter Pipeline Fund	4.8%	H&R Reit	2.4%
Keyera Facilities Income Fund	4.7%	Enerplus Resources Fund	2.3%
Firm Capital Mortgage Inv. Trust	4.7%	Teranet Income Fund	2.3%
AltaGas Income Fund	4.3%	Extencicare Reit	2.1%
Retirement Residences Reit	4.1%	Calloway Reit	2.1%
Riocan Reit	3.3%	Bonavista Energy Trust	1.9%
Amtelecom Income Fund	3.3%	Great Lakes Carbon Income Fund	1.9%
Yellow Pages Income Fund	3.1%	Harvest Energy Trust	1.8%
Vermilion Energy Trust	2.9%	NAL Oil & Gas Trust	1.8%
Royal LePage Franchise Services Fund	2.7%	Crescent Point Energy Trust	1.7%
ARC Energy Trust	2.6%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at www.citadelfunds.com.

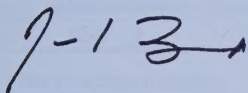
Management's Responsibility Statement

The financial statements of Citadel S-1 Income Trust Fund have been prepared by Citadel S1 Management Ltd. ("CSML") and approved by the Board of Directors of CSML. CSML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

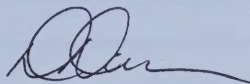
CSML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CSML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of CSML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall
Chief Executive Officer
Citadel S1 Management Ltd.
March 20, 2007



Darren K. Duncan
Chief Financial Officer
Citadel S1 Management Ltd.

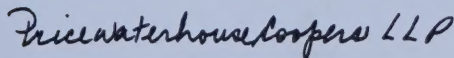
Auditors' Report to Unitholders

To the Unitholders of Citadel S-1 Income Trust Fund

We have audited the statements of net assets and investments of Citadel S-1 Income Trust Fund as at December 31, 2006 and 2005 and the statements of operations and changes in net assets for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2006 and 2005 and the results of its operations and the changes in its net assets for the years ended December 31, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.



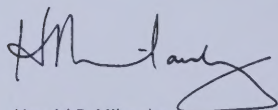
Chartered Accountants
Calgary, Alberta
March 20, 2007

Statement of Net Assets

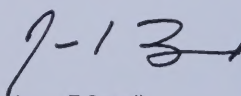
As at December 31	2006	2005
Assets		
Investments, at market	\$ 54,430,294	\$ 64,287,878
Cash and term deposits	6,731,129	6,191,455
Prepaid expenses	690,087	710,148
Revenue receivable	485,010	525,730
Accounts receivable	71,181	40,658
	62,407,701	71,755,869
Liabilities		
Payable for investments purchased	33,337	33,365
Distributions payable	1,839,010	436,501
	1,872,347	469,866
Net Assets representing Unitholders' Equity	\$ 60,535,354	\$ 71,286,003
Units outstanding (note 3)	4,050,683	4,197,122
Net asset value per unit	\$ 14.94	\$ 16.98

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky
Chairman of the Board



James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

For the years ended December 31	2006	2005
Revenue		
Distribution income	\$ 5,382,611	\$ 5,544,272
Interest income	276,652	172,341
Securities lending income	6,206	—
	5,665,469	5,716,613
Expenses		
Administrative and investment manager fees (note 4)	936,885	964,258
General and administration costs	93,566	112,340
Directors' fees	70,026	83,135
Reporting costs	26,713	32,572
Audit fees	22,285	23,167
Legal fees	12,391	6,375
Trustee fees	9,181	13,465
Custodial fees	8,607	8,255
	1,179,654	1,243,567
Net investment income	4,485,815	4,473,046
Net realized gain on sale of investments (note 5)	1,951,252	2,521,625
Net change in unrealized gain (loss) on investments	(8,456,157)	1,285,831
Total results of operations	\$ (2,019,090)	\$ 8,280,502
Results of operations per unit⁽¹⁾		
Net investment income	\$ 1.09	\$ 1.05
Net realized gain on sale of investments	0.47	0.59
Net change in unrealized gain (loss) on investments	(2.05)	0.30
	\$ (0.49)	\$ 1.94

⁽¹⁾ Based on the weighted average number of units outstanding.
see accompanying notes

Statement of Changes in Net Assets

For the years ended December 31	2006	2005
Net Assets – beginning of year	\$ 71,286,003	\$ 69,638,526
Operations:		
Net investment income	4,485,815	4,473,046
Net realized gain on sale of investments	1,951,252	2,521,625
Net change in unrealized gain (loss) on investments	(8,456,157)	1,285,831
	(2,019,090)	8,280,502
Unitholder Transactions: (note 3)		
Issuance of trust units, net	920,116	946,864
Repurchase of trust units	(3,116,892)	(2,289,684)
	(2,196,776)	(1,342,820)
Distributions to Unitholders: (note 6)		
From net investment income	(5,425,228)	(5,290,205)
From capital gains	(1,109,555)	–
	(6,534,783)	(5,290,205)
Net Assets – end of year	\$ 60,535,354	\$ 71,286,003
Distributions per unit	\$ 1.598	\$ 1.248

see accompanying notes

Statement of Investments

	December 31, 2006				December 31, 2005			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
Oil & Gas Royalty Trusts								
ARC Energy Trust	70,000	\$ 818,920	\$ 1,561,000		70,000	\$ 818,920	\$ 1,854,300	
Bonavista Energy Trust	40,500	711,351	1,140,075		40,500	711,351	1,543,050	
Crescent Point Energy Trust	60,000	1,005,000	1,056,000		–	–	–	
Enerplus Resources Fund	28,000	721,691	1,419,040		28,000	721,691	1,564,080	
Harvest Energy Trust	42,500	1,198,670	1,114,775		–	–	–	
NAL Oil & Gas Trust	90,000	1,251,900	1,107,900		90,000	1,251,900	1,627,200	
Paramount Energy Trust	70,000	904,896	868,000		82,500	1,051,458	1,829,025	
Shiningbank Energy Income Fund	65,000	960,159	835,250		63,200	896,250	1,842,280	
Vermilion Energy Trust	50,000	705,000	1,750,000		75,000	1,057,500	2,230,500	
Viking Energy Royalty Trust	–	–	–		170,000	1,198,670	1,564,000	
		8,277,587	10,852,040	17.7%		7,707,740	14,054,435	19.9%
Ongoing Business Trusts								
ACS Media Income Fund	–	–	–		115,000	1,176,450	1,029,250	
Amtelecom Income Fund	180,000	1,980,000	1,998,000		120,000	1,200,000	1,554,000	
BFI Canada Income Fund	23,700	691,865	637,530		–	–	–	
Bell Aliant Regional Comm. Income Fund	24,800	830,614	668,608		–	–	–	
CML Healthcare Income Fund	110,000	1,253,792	1,534,500		90,000	965,430	1,296,000	
Custom Direct Income Fund	135,000	1,255,091	1,009,800		90,000	900,000	886,500	
Granby Industries Income Fund	–	–	–		200,000	1,000,500	1,170,000	
Great Lakes Carbon Income Fund	100,000	1,263,000	1,130,000		100,000	1,263,000	1,010,000	
Noranda Income Fund	–	–	–		100,000	1,003,000	1,195,000	

(continued on following page)

	December 31, 2006				December 31, 2005			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<i>(continued from previous page)</i>								
Rogers Sugar Income Fund	—	—	—		225,000	1,042,047	832,500	
Royal LePage Franchise Services Fund	120,000	1,392,000	1,602,000		170,000	1,972,000	2,227,000	
Royal Utilities Income Fund	27,700	277,000	314,395		—	—	—	
Telus Corp.	17,200	1,060,857	894,916		—	—	—	
Teranet Income Fund	155,400	1,521,900	1,381,506		—	—	—	
TransForce Income Fund	73,389	593,947	990,018		72,269	579,095	1,232,909	
Yellow Pages Income Fund	145,000	1,881,866	1,866,150		85,000	956,250	1,385,500	
		14,001,932	14,027,423	22.9%		12,057,772	13,818,659	19.6%
Pipeline/Energy Investments								
AltaGas Income Trust	100,000	2,601,595	2,620,000		45,000	1,114,335	1,257,750	
Energy Savings Income Fund	31,000	215,343	416,950		31,000	215,343	588,690	
Fort Chicago Energy Partners L.P.	—	—	—		100,000	1,233,596	1,199,000	
Inter Pipeline Fund	320,000	1,827,093	2,892,800		330,000	1,884,190	3,316,500	
Keyera Facilities Income Fund	170,000	2,228,116	2,828,800		190,000	2,420,403	4,132,500	
Superior Plus Income Fund	—	—	—		104,000	1,491,011	2,444,000	
		6,872,147	8,758,550	14.3%		8,358,878	12,938,440	18.3%
Power Generation Investments								
Algonquin Power Income Fund	154,204	1,470,540	1,531,246		245,181	2,338,126	2,562,141	
Boralex Power Income Fund	—	—	—		250,000	2,537,310	2,505,000	
Countryside Power Income Fund	55,800	543,637	387,810		—	—	—	
Epcor Power L.P.	36,900	1,121,578	987,075		36,900	1,121,578	1,300,725	
Northland Power Income Fund	255,000	2,642,163	3,332,850		170,000	1,441,113	2,534,700	
TransAlta Power L.P.	—	—	—		370,600	3,380,872	3,631,880	
		5,777,918	6,238,981	10.2%		10,818,999	12,534,446	17.8%
Real Estate Investment Trusts								
Calloway Reit	45,000	1,098,050	1,242,000		—	—	—	
Dundee Reit	83,000	1,907,793	3,207,950		110,000	2,528,400	2,827,000	
Extendicare Reit	90,000	1,347,764	1,307,700		—	—	—	
Firm Capital Mortgage Investment Trust	270,000	2,693,157	2,821,500		180,000	1,743,637	1,940,400	
H & R Reit	60,000	1,151,271	1,445,400		50,000	945,100	1,040,000	
Retirement Residences Reit	300,000	2,472,480	2,484,000		—	—	—	
Riocan Reit	80,000	765,774	2,012,000		80,000	765,774	1,823,200	
Summit Reit	—	—	—		85,000	1,554,670	2,088,450	
TGS North American Reit	—	—	—		150,000	1,286,301	1,189,500	
		11,436,289	14,520,550	23.8%		8,823,882	10,908,550	15.5%
Citadel S-1 units – repurchased for cancellation	2,500	33,336	32,750	0.1%	2,100	33,365	33,348	0.1%
Investments		46,399,208	54,430,294	89.0%		47,800,636	64,287,878	91.2%
Cash and Term Deposits		6,731,129	6,731,129	11.0%		6,191,455	6,191,455	8.8%
Total		\$ 53,130,337	\$ 61,161,423	100.0%		\$ 53,992,091	\$ 70,479,333	100.0%

All portfolio holdings are trust units, except the following: Noranda Income Fund – priority units; Fort Chicago Energy Partners L.P. and Inter Pipeline Fund – Class A L.P. units; Epcor Power L.P., Taylor NGL L.P. and TransAlta Power L.P. – limited partnership units and Telus Corp. – common shares.

Notes to the Financial Statements

December 31, 2006 and 2005

1. STRUCTURE OF THE FUND

Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 11, 2000. The Fund commenced operations upon completion of its initial public offering on October 6, 2000. The term of the Fund continues until December 31, 2010 in accordance with the provisions of the Fund's Declaration of Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to the unitholders in 2006 and 2005, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) Financial instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, accounts receivable, revenue receivable, payable for investments purchased and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	December 31, 2006		December 31, 2005	
	Number	Amount	Number	Amount
Trust units – beginning of year	4,197,122	\$ 48,959,304	4,283,454	\$ 50,302,123
Issued for services (note 4)	58,861	920,116	59,772	946,865
Repurchase of trust units	(205,300)	(3,116,892)	(146,104)	(2,289,684)
Trust units – end of year	4,050,683	\$ 46,762,528	4,197,122	\$ 48,959,304

On November 15, 2005, the Fund completed a unit split on a 2:1 basis. All comparative information has been adjusted to reflect this unit split. The weighted average number of units outstanding for the year ended December 31, 2006 was 4,115,609 (2005 – 4,268,680 units)

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum in each calendar quarter of 1.25% of the total number of units outstanding at the beginning of such quarter. For the year ended December 31, 2006 Citadel S-1 repurchased 205,300 trust units under this repurchase program at an average cost of \$15.18 per unit (2005 – 146,104 units at an average cost of \$15.67 per unit).

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES

Citadel S1 Management Ltd. ("CSML") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, total annual administrative and investment management fees are based upon 1.25% of the aggregate average weekly net asset value of the Fund, payable in units in advance and subject to annual adjustment. In October 2006, the administrator and investment manager were issued 55,786 units (2005 – 55,396 units) for the next twelve months of services. For the year ended December 31, 2006, the Fund recorded an expense of \$936,885 (2005 – \$964,258) in respect of the administrative and investment management fee units earned during the year. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2006, included in accounts receivable were amounts owed from CSML of \$71,181 (2005 - \$40,658 in accounts receivable).

Directors of CSML received a total of 3,075 units in October 2006 (October 2005 – 4,376) as part of their annual retainers.

5. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

For the years ended December 31	2006	2005
Net proceeds from the sale of securities	\$ 25,337,659	\$ 20,961,389
Less cost of securities sold:		
Investments at cost – beginning of year	47,800,636	49,614,900
Investments purchased during year	21,984,979	16,625,500
Investments at cost – end of year	(46,399,208)	(47,800,636)
Cost of investments disposed of during year	23,386,407	18,439,763
Net realized gain on sale of investments	\$ 1,951,252	\$ 2,521,625

6. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at \$0.104 per unit based upon cash distributions received by the Fund less estimated expenses. In 2006, the Fund also paid out a portion of its realized capital gains in order to supplement distributions.

For the years ended December 31	2006	2005
Net investment income for the year	\$ 4,485,815	\$ 4,473,046
Add fees paid by issuance of units	939,413	963,679
Capital distributed (cash flow retained)	1,109,555	(146,520)
Cash distributions	\$ 6,534,783	\$ 5,290,205
Cash distributions per unit	\$ 1.598	\$ 1.248

7. BROKER COMMISSIONS

For the year ended December 31, 2006, the Fund paid commissions to brokers of \$61,018 (2005 – \$68,273) and they are recorded in the purchase and sale of investments.

8. SECURITIES LENDING

The Fund engaged in securities lending during 2006 and as at December 31, 2006, the Fund had lent out \$5.3 million of its portfolio securities with \$5.7 million of collateral in primarily federal and provincial bonds.

Corporate Information

Administrators

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
Citadel Series Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
CGF Funds Management Ltd.
CGF Resource FT Funds Management Ltd.
Suite 3500, 350 - 7th Avenue S.W.
Calgary, Alberta T2P 3N9
Telephone: (403) 261-9674
Toll Free: 1 877 261-9674
Fax: (403) 261-8670
Website: www.citadelfunds.com
Email: info@citadelfunds.com

Investment Manager

(CTD.un, SDL.un, CHF.un, CRT.un,
SRC.un and CSR.un)
Bloom Investment Counsel, Inc.
Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

Investment Manager

(EPF.un, SPU.un and CGF Resource 2006)
Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

Investment Manager

(CPF.un)
Fiera YMG Capital Inc.
1501 McGill College Avenue, Suite 900
Montreal, Quebec H3A 3M8

Rebalancing Advisor

(IEP.un, EQW.un and FPR.pr.a)
Shaunessy Investment Counsel Inc.
Suite 504, 933-17th Avenue S.W.
Calgary, Alberta T2T 5R6

Directors and Officers

Harold P. Milavsky - Chairman of the Board
Micheline Bouchard - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer

Trustee

Computershare Trust Company of Canada
Sixth Floor
530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

Custodian

CIBC Mellon Global Securities Services Company
320 Bay Street, 6th Floor
Toronto, Ontario M5H 4A6

Legal Counsel

Stikeman Elliott LLP
4300 Bankers Hall West
888 - 3rd Street S.W.
Calgary, Alberta T2P 5C5

Auditors

PricewaterhouseCoopers LLP
3100, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 5L3

Stock Exchange Listings

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
Citadel Premium Income Fund units: **CPF.un**
Series S-1 Income Fund units: **SRC.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**
Financial Preferred Securities Corporation shares: **FPR.pr.a**
CGF Resource 2006 Flow-Through Limited Partnership units: not listed



Suite 3500, 350 - 7th Avenue S.W.

Calgary, Alberta T2P 3N9

Tel: (877) 261-9674 Fax: (403) 261-8670

Website: www.citadelfunds.com